THE Market Administrator's BULLETIN

MARKET ADMINISTRATOR

Published at 79 East State Street, Columbus 15, Ohio
ISSUED FOR PRODUCERS WHO ARE NOT MEMBERS OF COOPERATIVE ASSOCIATIONS

JUNE, 1961 Vol. 17 No. 6

Southeastern Federal Milk Orders In The Sixties

Excerpts from a Talk by H. L. Forest, Director, Milk Marketing Orders Division, at annual Southeastern Dairy Marketing Clinic, Fort Lauderdale, Florida, May 23, 1961

I should like to review with you some aspects of the national dairy situation before discussing the 10-year outlook for Federal milk orders in the Southeastern region. The time has long passed when it was necessary to explain that a discussion of the national dairy situation is basic to a review of the outlook for dairying in any section of our country. I trust that the interdependence of all parts of our dairy industry is now so clear as to be self-evident.

That is not to say that there is no independence. You can sneeze in the Southeast without the whole dairy industry catching pneumonia. Also, some of the rest of the dairy industry can have ailments, all of which would not cause grave illness in the Southeast. But, as is true of people, while not every illness becomes an epidemic, the good health of each of us is the concern of all.

The long-range outlook for the dairy industry as a whole indicates some dark aspects. The declining demand for butterfat in fluid milk and for cream, the inroads margarine has made on the butter market, and the production of nonfat dry milk at nearly twice the rate of commercial domestic consumption at prevailing prices are, to say the least, not favorable factors. To offset these factors to a large extent is the steady increase in population and consumer income. These should produce an increase in total consumption, if not in per capita use of milk. In the Southeast, fluid milk is the major item in the dairy situation and demand has remained comparatively strong. Moreover, population in Maryland and Virginia increased faster than the United States average between 1950 and 1960, it boomed in Florida, and has showed at least moderate increase in the other Southeastern states.

Leaving these few comments on the general dairy outlook, I should like to get down to the specific topic of Federal orders. For most of this discussion, I shall assume that the orders will remain basically the same as at present, regardless of possible changes in the enabling legislation. By confining my remarks to the same basic Federal order system, it will be possible to be much more specific about the sixties than if we try to evaluate possible major changes in the program. I will, however, close by making at least a few comments on the newly proposed farm legislation.

Even though this audience is well informed on milk marketing, it may be useful to highlight some of the most essential features of the Federal order program as it has developed over the past 26 years. Firstly, this program has been applied only to milk produced for fluid purposes, commonly referred to as Grade A milk. Secondly, the fluid milk supply for each metropolitan area has been traditionally obtained from farms located near the marketing area; although in the case of very large cities, the "nearby" sources were often located several hundred miles from the city. In recent years, the farm bulk tank, improved roads, and better trucks have made it possible to draw on milk supplied from longer distances. Even so, fluid markets today still retain much of their local character.

Fluid markets are alike in many ways, yet each is surprisingly different with respect to the characteristics of the producer organization, the arrangements for hauling the milk from farm to plant, the classification and pricing plans used, the seasonal incentive plans, and the procurement and distribution practices of the milk dealers. In most markets dairy farmers have organized cooperative associations. These also vary widely in the functions they perform. Some confine themselves strictly to bargaining functions, while others market the milk all the way from the farm to the consumer.

The primary feature of a Federal order is the enforcement of a classified price plan for the entire market. The importance of classified pricing and the associated pooling techniques in promoting orderly marketing, equity between handlers and between producers, and the setting of appropriate prices for each class use are well known to you. Where Federal orders have been requested the cooperatives have not been able to operate a fully effective classified price plan by their own efforts and have sought the help of Federal orders to accomplish this important goal.

Government regulation may introduce rigidities into the marketing system, but obviously this fact is not necessarily a deterrent to progress. Federal milk orders have met the realities of the milk industry and have had a wide acceptance and a steady growth.

Probably the most significant factor in this growth has been the operation of the supply-demand pricing standard provided for milk in the Agricultural Marketing Agreement Act. As a result, new marketing and production techniques have been not only sought, but adoption

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Market Facts

Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY	May 1961	April 1961	May 1960
Producers' Uniform Price (3.5%)	$3.61	$3.79	$3.44
Producers' Uniform Price (4%)	3.98	4.16	3.79
Class I (3.5%)	4.239	4.328	4.132
Class II (3.5%)	3.839	3.928	3.732
Class III (3.5%)	3.763	3.729	3.508
Class IV (3.5%)	3.143	3.119	2.888
Producer Butterfat Differential for each one-tenth percent	7.4¢	7.4¢	7.0¢

UTILIZATION SUMMARY	May 1961	April 1961	May 1960
Percent of Producer Milk in Class I	69.1	79.2	67.4
Percent of Producer Butterfat in Class I	66.4	74.5	64.9
Percent of Producer Milk in Class II	7.2	7.5	7.1
Percent of Producer Butterfat in Class II	2.5	2.3	2.3
Percent of Producer Milk in Class III	2.9	2.1	2.7
Percent of Producer Butterfat in Class III	4.4	3.6	3.3
Percent of Producer Milk in Class IV	20.8	11.2	22.8
Percent of Producer Butterfat in Class IV	26.7	19.6	29.5

PRODUCTION SUMMARY	May 1961	April 1961	May 1960
Total Pounds of Producer Milk Delivered	33,290,673	28,736,091	33,354,543
Average Daily Class I Producer Milk	742,738	758,936	724,918
Total Number of Producers	1,240	1,243	1,673
Average Daily Production per Producer	866	771	643
Average Butterfat Test	3.73	3.80	3.75
Total Value of Producers Milk at Test	$1,375,302.51	$1,252,213.42	$1,324,408.71
Income per Producer (7 day average)	$250.44	$235.06	$178.76

GROSS CLASS USE (Pounds)	May 1961	April 1961	May 1960
Class I Skim	22,198,744	21,954.276	21,660,097
Class I Butterfat	826,131	813,812	812,353
Class I Milk	23,024,875	22,768,088	22,472,450
Class II Skim	2,364,750	2,171,090	2,337,512
Class II Butterfat	31,235	24,756	28,313
Class II Milk	2,395,985	2,195,846	2,365,825

AVERAGE DAILY SALES (Quarts)	May 1961	April 1961	May 1960
Milk	292,718	293,085	284,980
Buttermilk	4,861	4,674	5,359
Chocolate	17,422	16,788	16,125
Skim	12,838	13,019	11,655
Cream	8,777	8,550	8,572

COMPARATIVE STATISTICS ★ COLUMBUS MARKETING AREA ★ MAY 1952-'61

Year	Receipts from Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class prices at 3.5%				Number of Producers	Daily Average Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1952......	23,897,782	3.90	60.6	30.9	3.4	——	4.30	4.860	4.460	3.714	——	2,108	363
1953......	26,860,120	3.86	59.5	24.7	15.8	——	3.91	4.516	4.116	3.441	——	2,226	389
1954......	28,123,912	3.83	59.2	6.4	14.4	20.0	3.25	3.99	3.59	3.23	3.05	2,175	417
1955......	29,742,565	3.71	59.5	6.7	15.2	18.6	3.45	4.204	3.804	3.304	3.129	2,084	460
1956......	30,035,601	3.77	63.1	8.4	13.6	14.9	3.87	4.757	3.897	3.397	3.220	2,056	471
1957......	30,240,247	3.70	67.6	7.2	14.4	10.8	3.88	4.568	4.168	3.488	3.066	1,908	511
1958......	30,140,831	3.69	66.3	7.6	9.5	16.6	3.56	4.274	3.874	3.274	2.851	1,822	534
1959......	32,669,711	3.68	69.6	7.4	3.0	20.0	3.58	4.289	3.839	3.507	2.887	1,767	596
1960......	33,354,543	3.75	67.4	7.1	2.7	22.8	3.44	4.132	3.732	3.508	2.888	1,673	643
1961......	33,290,673	3.73	69.1	7.2	2.9	20.8	3.61	4.239	3.839	3.763	3.143	1,240	866

DAIRY PRODUCT MIX CONTINUES TO CHANGE

The Dairy Situation, Economic Research Service, USDA, April 1961

Milk has many uses, and there is a specific demand for each use. In the past two decades, there have been varying trends in each of these uses. It is difficult to generalize on the reasons, as consumer tastes and preferences are continually changing. This is another way of saying that consumers do not respond in the same way to changes in prices and income over time. To add further to the complex nature of demand, changing technology permitting new uses of milk, modifications of existing products, and improvements in marketing methods have greatly changed the product mix of dairy products. This has been reflected in a further drop in butter consumption, in fluid cream consumption—both light and heavy, a downward trend in the fat content of fluid whole milk, increase in the consumption of skim milk items and cottage cheese, and a growing demand for frozen desserts with a lower milkfat content but slightly higher in solids-not-fat.

Because of the changing product mix, an overall appraisal of the demand for farm milk is difficult. Interest in the appraisal is twofold. A study of trends in the product weight of individual dairy products permits an evaluation of consumer demand for each dairy product. On the other hand, since each product competes with other dairy products for the same supply of milk, we are interested in the milkfat and the solids-not-fat used in each product. It is the aggregate demand for milkfat and solids-not-fat in all these products that determines the demand for farm sales of milk and butterfat. It is evident that no single series is adequate. From the standpoint of aggregation, quantities of milkfat and solids-not-fat of each product are meaningful to determine the total demand. Furthermore, information on trends in the milkfat and solids-not-fat content in each product provides clues as to the effect changing proportions of these two components have on the total demand for farm milk. In particular, changes in the product mix of fluid milk items in the last decade have significance.

Increasing supplies of competing products at substantially lower prices have had considerable impact. The best example is margarine, the consumption of which was 9.4 pounds per person in 1960 compared to around 6 pounds a decade ago and 3 pounds prior to World War II. During the same period per capita consumption of butter declined from 17 pounds in the pre-World War II period to about 10 pounds a decade ago and still further to 7.6 pounds in 1960.

Demand for cheese, on the other hand, has continued its long-time upward trend. Per capita consumption of cheese in 1960 amounting to 8.4 pounds was 20 percent above the 1947-49 level. Apparently the demand for cheese is affected by prices for meat, and most likely the relatively high retail prices for meat stimulated the demand for cheese in the last few years. Ice cream and other frozen desserts have shown an upward trend in the last decade, with consumption higher in 1960 than 10 years earlier.

There has also been a persistent downtrend in the demand for milkfat in fluid milk products, primarily because of the change that has taken place in the product mix. Per capita use of milkfat in fluid products declined from 13.5 pounds in 1950 to 12.2 pounds in 1960, or a drop of 9 percent. In contrast, per capita consumption of fluid items in terms of product weight declined only 3 percent. Measured in terms of solids-not-fat, the decline was less than 3 percent, mainly because the practice of fortifying fluid milk products with added quantities of solids-not-fat has become more widespread.

Several factors have been responsible for these trends: (1) There has been a change in the composition of the product mix as products containing higher milkfat have been declining substantially relative to products containing less milkfat; (2) there has been a decline in the milkfat content of fluid whole milk and cream sold; (3) a further factor tending to reduce the per capita consumption estimates for the United States as a whole is that the estimate for 1960 gives less weight to the substantially higher consumption rates for the farm sector than in 1950 since farm population has been decreasing while nonfarm population has been increasing.

The more rapid decline in milkfat came about as consumers substituted fluid products with a lower fat content for those richer in fat and because there was a general lowering of the percentage of milkfat in whole milk and cream items. Most of the loss in the use of milkfat was concentrated in the cream items group.

MILK ORDERS . . .

(continued from front page)

of them has been almost a necessity if dairy industry in each area was to keep pace with the rest of the dairy industry. This supply-demand concept is in contrast to the parity standard which would guarantee to farmers any pre-determined price level. Other features which affect the price structure of the orders include the specific prohibition against geographic barriers, the fact that producers are not guaranteed a market, and the absence of authority to include controls over the production or marketing of milk for the marketing area.

I should now like to comment on the major changes which are occurring so rapidly in the fluid milk industry, the adaptations which the orders have made in response to such changes, and some trends that appear likely to continue well into the sixties.

Technological improvements in both the production and distribution of milk have been exceptionally rapid in recent years and have considerable impact on the order program. On the supply side one of these technological developments which has greatly increased the mobility of milk supplies is the farm bulk tank and the hauling of milk from farms in bulk tank trucks. The bulk tank has greatly increased the ability of dairymen to ship regularly to distant markets. Long-distance hauling rates on bulk tank milk are much lower than on equivalent quantities of milk in cans, the keeping quality of milk is better because of the lower temperature involved, and the cost of the country assembly plant can be avoided in many cases. Long-distance sources are sometimes sought by the receiving handler, but more commonly it is the cooperative in the major milk production regions which seek the markets. Chicago has long been known as a source of supplemental milk, but we have found that other regions have become major shippers of bulk milk. These include several of the Iowa markets; Southwestern Missouri; Fort Wayne, Indiana; Erie, Kansas; and the Cache Valley in Utah. In each case cooperatives have been the major exporters. These long-distance shippers can be attracted by either a Class I or a blend price advantage. If the blend price in the distant market is attractive, they will place shippers directly on the market as regular producers. However, if it is the Class I price which is most attractive in the distant market, they can send bulk milk from a plant regulated under their own local order.

On the distribution side, technological developments have made even greater strides in promoting intermarket shipments of milk. The adoption of the paper bottle greatly stimulated sales through stores. This combination greatly increased the quantity of milk handled per stop and made possible a vastly wider area of distribution from a given bottling plant. Improved refrigeration on the farms, in plants, in stores, and in the home increased the keeping quality of milk and contributed to the widening of distribution territories. Obviously, improved roads and trucks have also aided in the process.

Market Quotations

May
1961

12 MIDWEST CONDENSERIES 3.5% per Cwt.	$3.188
5 CONDENSERIES (Cincinnati) 3.5% per Cwt.	2.8650
4 CONDENSERIES (Tri-State) 3.5% per Cwt.	2.869
Evaporated Milk Code Price, 3.5% per Cwt.	2.894
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Cincinnati)	3.3205
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.263
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Dayton)	3.287
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Toledo)	3.161
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Tri-State, North Central O.)	3.161
Average Weekly Cheddars price per lb.	.34344
Average price per lb. non-fat dry milk solids, roller process, delivered in Chicago	.1555
Average price per lb. 92-score butter at Chicago	.60466
Average carlot prices non-fat dry milk solids, roller and spray process, f.o.b. manufacturing plant	.14615

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